

Looking Into The Future

Address By

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At the Annual Dinner of the
American Railway Engineering Association
Congress Hotel, Chicago, March 19, 1913

Looking Into The Future

It is needless for me to say that I fully appreciate the high honor of addressing your association at its annual banquet; but it is with some degree of hesitancy that I assume to appear before a body of professional men whose fundamental requirement in order to qualify in their calling is a most liberal technical education; gentlemen who, I might say, represent the culture and aristocracy of the railroad profession; and I might also say with sincere candor, gentlemen who, as we all know, represent the only branch of railroad service where the rules and practices are based upon exact science. Of course, I will admit that sometimes a premise may be wrong, but the conclusions of our engineers are always based upon sound formulae—or empirical deduction.

With the permission of the chairman of your entertainment committee, I have selected for the subject of my address "Looking into the Future," and with your kind indulgence, I shall take as my text an article appearing in the March issue of the *World's Work*, entitled "What I Am Trying to Do," by the Honorable Franklin K. Lane, late chairman of the Interstate Commerce Commission, recently appointed Secretary of the Interior, in which article Mr. Lane says: "We are seven, but we work as one."

In the concluding paragraph he states:

"The men who actually operate our railroads, who keep the intricate wheels of this mighty machine constantly in motion and always at our service, receive too little public acknowledgment for the work they perform. They are among the most skilled, capable and honest of our business and professional men. They have an enthusiasm in their work and a loyalty to their companies that is a constant satisfaction, and their delinquencies too often may be traced to policies which purely as railroad men they would not countenance. With these men we can work, and through them we may hope for the realization of a national system of railroads that will be fair as to rates, profitable as to income, and adequate as to service."

As many of you know, I am a native son of the Golden West, having been born and raised in California, and I have had the honor of a personal acquaintance with Mr. Lane for over a quarter of a century. While he was once an earnest advocate of government ownership of the railroads, in the fifth paragraph of the article above mentioned he says:

"Our primary object must be to prove the efficacy of the machinery devised by law for bringing the policy of our railroads into conformity with the policy of the law—to make private capital serve public need and yet conserve the interest of the railroad owner. The public wish the best of service at the lowest possible rates; the owners desire the highest return consonant with the fulfillment of their undertaken duties. This may be an *impasse*—a situation so impossible of resolution that we are destined to join *those nations who are experimenting with governmental ownership and operation*. That stage of despair, or of resolution—dependent upon the viewpoint—we, however, have not yet reached. In fact, I believe we are far from it, for we have only entered upon the experiment of regulation by commission, and students of this subject from other lands have said that their countries would not have sought refuge in governmental ownership had they in time discovered the American method of dealing with the railroad problem."

Briefly reviewing the situation, taking a back sight into the past to establish a foresight into the future, let us summarize the known quantities with which we have to deal, formulate our equations and theories and project them into the future as best we may.

Commerce is defined as the taking of things from the place where they are plentiful to the place where they are needed, and it has been well said that the degree of civilization enjoyed by a nation may be measured by the character of its transportation facilities. This is true not only of modern nations, but of all nations of which we have authentic history. The most advanced nation has always excelled in commerce and wealth, and the economic measures adopted for the furtherance of these interests have evolved civilization, which in itself is merely improvement in arts and learning.

COMMERCE THE FORERUNNER OF CIVILIZATION.

Among the first great nations of which we have positive knowledge were the Phoenicians, who for nearly two thousand years enjoyed the commercial supremacy of the world. Out of the necessities of their expanding commerce they invented numerous devices, many of which, withstanding the severe test of time, have been preserved for us, indispensable to modern civilization. They invented, for instance, an alphabet of their own representing sounds, because the picture writing of their neighboring nations could not be adapted to the needs of commerce, and their alphabet has been handed down to us of today as the greatest of all inventions. Before the Phoenician alphabet came into general use, history is dark, save for the flickering sparks of civilization commemorated by representations of visible objects, the meaning of which so often is conjectural.

Each subsequent nation which has risen to prominence has contributed its share to civilization, but only because of the exigencies of commerce and that indispensable factor of commerce—transportation. Wherever we may look, we shall find that commerce is the hand that shapes the destiny of nations, the agency which most needs and best utilizes the factors of civilization—art and learning.

China, with her yet primitive transportation facilities and necessarily restricted commerce, is an up-to-date object lesson in this respect. The accredited inventors of printing and explosives, those wonderful agencies of progress and defense, the principles of which have been known to the Chinese for over one thousand years, yet in all that long period not one Chinaman out of a total of three hundred million living population had even the faintest conception of the value of their inventions—because the spurs of commerce were unknown to them, and their simple defenses were best accomplished by stone walls of commercial isolation. It is of peculiar interest that the Chinese worship a fabled dragon, an object of terror, while our own forefathers worshipped their sacred bull, the carrier of their burdens, an emblem of progress.

Within the past few years, however, China has been awakened by the shrieking locomotive and the rumbling wheels of commerce, the introduction of modern business facilities marking the end of long centuries of domestic slavery, appalling pauperism, and thieving hordes which for generations have thrived upon their depredations—the theory of the ancient Chinese government being exploded with the gun powder of their own making.

NEW THEORIES OF GOVERNMENT.

In America, independence, having its birth in the memorable events which led up to the activities of the Boston tea party—an open rebellion against the restraints which England sought to impose upon American commerce—has advanced new theories of government. In the application of these theories many new conditions have been encountered and many perplexities have arisen to tax the wisdom and the courage of our most learned and capable men. In the past we have surmounted all these obstacles because we have always been able to find amongst us somewhere a man of the hour with conviction and courage of conviction equal to the occasion—and we have passed through some crucial tests. The nation has been torn asunder, the North and the South have faced each other with dripping swords, but we have never before encountered a situation so insidious of growth and so seriously affecting the bone and sinew of our strength, yet so full of promise, as the railroad situation of today. We are again wintering Valley Forge, internal discontent and conflicting elements adding to the difficulties of a seemingly impossible task. Let us hope with Mr. Lane that with the men who will answer the call final results may be realized which will be fair and adequate for all.

REBATING INEVITABLE UNDER KEENLY COMPETITIVE CONDITIONS.

During the past half century the railroads have been developing the resources of this country in a perfectly natural way. That certain abuses have crept into their methods

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is not at all surprising, for wherever active competition exists we shall always find abuses of a more or less serious nature; and when the apparently ideal methods of small business are applied by a sensitive, active, alert organization to a business having a net capitalization of \$14,000,000, 500, relatively unimportant shortcomings are wonderfully magnified and assume unusual significance. Yet during this period of rebating, discrimination and kindred evils, the wealth of the United States increased from \$7,000,000,000 in 1850 to \$107,000,000,000 in 1904, \$65,000,000,000, or over half of this enormous wealth, having been developed during the last twenty-four years of this period, while the pernicious practices so often referred to were under full sway. From this point of view the matter of rebating, etc., dwindles to relative insignificance, for we must bear in mind that this enormous wealth is *substantial* wealth, invested in the gilt-edged securities of farm lands, city property, industrials and public utilities, all enhancing in value dependent entirely upon future development of railroads.

But I hold no brief for the rebating system or discriminatory practices. No right-thinking railroad man in the country is but thankful that these days of extortion are passed forever. Nor do I claim that railroad business methods or conditions are yet perfected, but in justice to the sensitive economic features involved, I do plead for the most careful premeditation, and that should doubt arise in regard to any features, it should be carefully hedged in with all the proper safeguards of public welfare, bearing in mind the all-important lessons of history, and that economic and natural laws are always superior to statutory enactments and must not be disregarded.

MEETING CONDITIONS OF THE FUTURE.

The railroad situation at the present time is as delicate as it is complex. In the decade 1890 to 1900 the volume of freight traffic handled by the railroads was doubled, and in the following decade it was doubled again—and still the end is not in sight. Our farms are yielding but a small proportion of the crops that are possible by intensive cultivation. The density of our population is less than 31 persons to the square mile, while the population of the United Kingdom is 373 and that of Belgium 660 to the square mile; and if we project a line into the future from the point which we have established in the past, we cannot misapprehend the further development which lies directly before us.

But whether the volume of business increases or whether it decreases are speculative conditions, alike threatening to the railroad situation. An increase in the volume of business is an absolute necessity under present conditions of reduced net earnings per unit of service, but to provide facilities to handle an increased volume of business is a financial impossibility unless new capital can be induced to enter the field of railroad investment.

In referring to this phase of the question, Howard Elliott, president of the Northern Pacific railway, a man who has fought his own way from the humblest ranks to this position of eminence, stated in a recent address that there should be \$1,700,000,000 new capital put into the transportation business of the United States each year for the next five years—a total of \$8,500,000,000, or 60 per cent of the present calculated value of all our railroad property. This practically amounts to reconstruction throughout in order to handle the business now offered and make suitable provision for what we *know* is ahead of us. This means the replacement of obsolete equipment, the elimination of grades, double-tracking, safety appliances, also innumerable non-productive improvements, such as the elimination of grade crossings, modern station facilities, etc., demanded by the public—in short, better and safer transportation throughout.

The expenditure of \$1,700,000,000 new capital each year for the next five years would not mean that the wealth of this country would be decreased to this extent. Far from that! It would mean that this amount of money would be spent for labor and materials right here at home, and every cent of it would revert to the people in the most satisfactory forms acceptable to them. What a glorious vision of prosperity this presents!

GOVERNMENT REGULATION NOT OBJECTIONABLE.

The original founders of our railroad systems, visionary though they may have been and doubtless were, could never have thought possible the wonderful development and the amazing prosperity of the past twenty years. History presents no precedent, simply because the possibilities of transportation have never before been so thoroughly exploited. Neither could this development have been possible, save for the acute business instincts of private ownership of railroads and the widest freedom of individual initiative, neither of which could survive government ownership or government operation.

Government control is not at all objectionable to the railroads; in fact, it is a necessity; and its restraining influences are entirely wholesome. In many respects the government has already produced results which the railroads could never hope to accomplish—such, for instance, as the elimination of rebating and other discriminatory practices inherent to active competition, all of which practically have been abolished from the sphere of railroad operation.

But in paring down the claws of this alleged monster, the railroads—a regular Chinese dragon to those less familiar with their economic and strategic uses, still the same sacred carrier of burdens and the emblems of progress that our ancestors worshipped forty centuries ago—they have cut into the quick, and until the wound heals by natural processes, progress will be crippled. In taking away from the railroads the prerogative of rate making and by prescribing numerous restrictive conditions of operation which tend to reduce revenue and increase expenses, they have taken away from the railroads their natural weapons of offense and defense, and have left the railroads apparently at the mercy of an unsympathetic public, which, laboring under grave misapprehension, sees nothing but misdeeds, naturally, artificially and oftentimes maliciously, magnified.

RAILROAD FACILITIES INADEQUATE TO MEET REQUIREMENTS.

Owing to this unfortunate state of affairs, the railroads of the United States have now reached a stage where they are unable to provide adequate terminal facilities where they are most urgently required, and where congestions recur annually, lasting for months at a time, regardless of the extreme shortage of equipment. The steadily decreasing margin of safety in railroad operation, amounting to substantially 28 per cent in the past ten years, has made it compulsory upon the part of the railroads to cut maintenance charges, and accordingly the physical property—roadway and rolling stock—has in many instances been sacrificed to produce even these results, and visions of the future have become obscured by the run-down conditions of today.

RAILROAD VS. INDUSTRIAL RETURN ON INVESTMENT.

Turning from this unpleasant aspect, in the shadow of gloom which has fallen upon the railroad situation the investing public looks askance at the red figures in income account, like fire destroying property values, and turns reluctantly to industrials, where obscurity seems to promise security, where the net return upon capital invested is more than twice as great as in railroads, where the public is not a factor to consult, and where the government is in no wise sponsor for results.

That the railroads should expect to share in the general prosperity of their own making is not surprising—excepting that the railroads yield but 5.7 per cent upon investments, while manufactures yield over 12 per cent, and the value of farm land and city property is appreciating in value so rapidly that comprehensive data is not available. In view of the risks assumed in railroad undertakings, the developments which they have always encouraged, and the excellent service which they are rendering to the public even under the present restrictive conditions, it would appear that more encouraging results should be possible along this line of investment, as a more substantial guaranty of public safety, financially and commercially. The suggestion that railroad investments should earn as much as investments in manufactures, for instance, is not out of order, because the right to earn a reasonable profit upon legitimate investment is all that is asked for, and the improvement of railroad property and the enlargement of its facilities is a matter of urgent public necessity. This menace of financial impossibilities thrust upon the railroads should be speedily removed as a restraint to commerce, which, in fact, it is, and in no small measure.

DIVIDENDS ON RAILROAD STOCKS.

In the matter of dividends on railroad stocks, the impression seems to prevail that a dividend of, say, 7 or 8 per cent on stock would be equivalent to throwing that much wealth into the sea, when in fact, it would merely revert to the people—to the widows, orphans, business men, financial and endowed public institutions, where it would be reinvested immediately in one highly desirable form or another. Certainly this would be no crime. It would be an economic condition much to be preferred to the closed shop, with roundhouses standing full of crippled locomotives, yards filled with bad-order cars, roadway neglected because of financial stringency, and wasteful congestions prevailing—all resulting in unsatisfactory service to patrons, unsatisfactory results for the railroad managers, and a passing of dividends for the shareholders. The question is who *does* get any benefit from this condition of affairs?

RAILROAD SECURITIES HELD ABROAD.

Another phase of this question, one which should cause the deepest reflection, is the fact that from 20 to 25 per cent of our railroad securities are held abroad. With private ownership of railroads as it exists today, it is useless for the government to attempt to evade the responsibility for the depreciating values of these securities, which are being returned to us under protest. Our "commerce laws" originally were enacted for the protection of bona fide investors in railroad securities and to prevent practices that could not be measured by a strict code of business justice, and if we would avert national dishonor, more undesirable than anything else that could happen, we should be ever conscious of this delicate situation and leave nothing whatever undone to satisfy in the fullest measure our pledges of faith held abroad.

The armies and navies of the world have always existed primarily for the protection of commerce. Relentless wars have been waged, and shall yet be waged, because of conditions that affect national wealth and national welfare, and nothing affects national wealth and national welfare as do conditions of commerce.

No individual has ever knowingly sought to destroy a source of his income, but he will fight, and fight to the death, to preserve it. Nations are merely groups of individuals, none the less sensitive and responsive to these same conditions, and as long as foreign capital invested in American railroads yields just and satisfactory returns to the strong financial institutions of Europe, their dogs of war will ever remain chained up at home, American railroad securities will be our national security—not the misnomer they seem to be today—and the International Peace Conferences at The Hague will be merely a waste of effort so far as America is concerned.

This condition of affairs is peculiar to America alone. It is one of our most valuable assets, the most formidable defense that any nation has ever erected. Let us not tear it down with our own hands.

Moreover, we are now approaching the time when it will be possible to materially strengthen this position, when securities must be floated for the \$8,500,000,000 which should, and must, be put in our transportation system within the next five years, and we cannot afford to ignore the opportunity that is now knocking at our door.

JUDGE KNAPP AND COMMISSIONERS LANE AND PROUTY AGREE.

In this tangled web of conflicting conditions now lying before us, I believe that the ends have finally been gotten together. I believe the crisis is passed—even perhaps as our eminent authority, Mr. Lane, expresses the thought respecting government ownership: "That stage of despair, or resolution, we have not yet reached."

In his fine, deliberate, cautious manner, possibly the question of government ownership and operation of our railroads may have slipped by unobserved and into oblivion with the changing of his own attitude upon this point. Let us hope that it has.

In the beginning of his article to which I have referred, Mr. Lane states in regard to the personnel of the Commission:

"It would be hard to find seven men who differ more in temperament, in training, or in type of mind, than the present commissioners. We differ as one leaf from another in our political sympathies. Often we do not arrive at our conclusions from the same strategic angle."

Yet it is worthy of note that Mr. Lane's predecessor, the Honorable Charles A. Prouty, ex-chairman of the Interstate Commerce Commission, a man who, like Mr. Lane, has made a life-long study of the perplexing railroad problems, has stated:

"If the time does come when railroad property is sacrificed to public clamor, when the public demands its confiscation and the regulating tribunal concedes that demand, no property will be of much value. The day will have come when the obligation of private rights is no longer observed."

The Honorable Martin A. Knapp, likewise an ex-chairman of the Interstate Commerce Commission, a tireless student of the railroad situation, and one of the most profound thinkers in this country, expresses his thoughts as follows:

"I should regret to see the government take up the business of owning and operating our railroad lines."

It would, therefore, seem that these three able analysts, individually and by different methods, have arrived at about the same conclusion—that the square of commercial condition cannot be made to fit satisfactorily into a theoretically perfect circle of public ownership.

When this question is finally and definitely disposed of, we may proceed more understandingly and along more scientific lines to pursue the cause of higher civilization.

RAILROAD MEN MAY BE RELIED UPON TO AID COMMISSION.

The clarifying of the railroad situation may yet take years to accomplish, for it must necessarily be a slow and careful procedure; and in the efforts of the commission to untangle this web of misunderstanding and misdirected efforts no right-thinking railroad man, no public-spirited man, whatever may be his calling, should withhold his fullest support and his warmest encouragement. The railroads, having nothing to fear, I am sure will, as a unit, welcome and enthusiastically embrace the opportunity to work in full harmony with the commission and for the common cause of the people, including not only patrons of railroads and railroad employees, but also the holders of railroad securities and the public generally—a happy solution which in itself will contain all that is desirable in government ownership or operation, and yet will maintain the constitutional rights of private property and preserve the spirit of industrial freedom and the incentive for individual initiative which in the past twenty-four years have wrought a stupendous wealth, regardless of all our shortcomings.

LOOKING INTO THE FUTURE.

That we are nearing a satisfactory solution of this entire railroad problem, I am convinced. The fact is clearly demonstrated by the three opinions herein cited, those of the three ex-chairmen of the Interstate Commerce Commission, each arrived at entirely independently of the others and very probably from entirely different strategic angles.

Furthermore, in stating his views before the Traffic Club of Pittsburgh less than a year ago, the Honorable Charles A. Prouty used the following language:

"No form of investment today is, and no form of investment in the future will be, more certain than railroad stocks and bonds. . . . The worst that could happen to the stockholder of any of our great railway systems would be a temporary suspension of dividends, and even this could occur only under very unusual circumstances."

In view of the unanimity of opinion and the unqualified assurances emanating from an undisputed authority, the Interstate Commerce Commission, I feel confident that the reins of the situation are in careful hands and that we will yet be able to demonstrate the truth of the assertion that "the degree of civilization enjoyed by a nation is measured by the character of its transportation facilities."

Therefore, with a full knowledge of what we are trying to do, conscious of the tremendous task before us, and the wonderful possibilities that are contingent upon the correct solution of the present-day railroad problem, now is not the time to lament what has happened, or what may have happened in the past, but with unwavering faith in the wisdom and integrity of our able Interstate Commerce Commissioners, generals of the greatest army that ever entered a field of conquest, let us set about to build our bridges into the future—bridges big enough to span any depression which we might encounter in the commercial conditions before us, bridges strong enough to withstand the test of prosperity which we have already sighted over the established points of the past.